

AR37

1962

Annual Report

Prairie Oil Royalties

COMPANY, LTD.





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To the Shareholders:

The Board of Directors is pleased to submit the following report covering the operations of Prairie Oil Royalties Company, Ltd. for the fiscal year ended June 30, 1962. Included with this report are the financial statements of the Company, together with the Auditors' report thereon and a statement of net oil and gas reserves as calculated by an independent firm of consultants.

Considerable progress was made by the Company during the past year. An expanded exploration program was undertaken together with the Company's manager, Devon-Palmer Oils Ltd. The Company participated in the drilling of four wildcat wells, two of which discovered gas in commercial quantities. In addition, several projects are currently underway and prospects for continued success of the Company in the exploration field appear good. A concise review of exploration activities is presented in this report.

During the year daily net oil production, all of which is located in the Province of Saskatchewan, averaged 440 barrels compared to 429 barrels reported for the previous year. Increases in the wellhead prices, however, resulted in a record gross oil income of \$314,955 for the year compared to \$272,593 received during the previous year. Approximately 59% of the Company's oil production is obtained from properties situated in the Southeastern portion of the Province, principally in the Midale-Weyburn producing areas, while the remainder comes from Southwestern Saskatchewan properties.

In May, 1962 the Company received an attractive offer for its 75% interest in one well in the Midale field. After being advised of the remaining-interest holder's intention to sell, the Directors proceeded with the sale for \$95,000. The Company retains its 2½% gross overriding royalty interests on other lands in the recently unitized Midale field, which lands comprise an aggregate equity in the Unit of 36.2%. The Midale Unit contains 275 producing oil wells and will shortly commence water injection-pressure maintenance operations.

During the past year and subsequent to the year's end the Company acquired additional shares of British Columbia Oil Lands Ltd. increasing its holding to 333,522 shares. The Company thus became the largest single shareholder of British Columbia Oil Lands Ltd. holding 35.2% of the issued capital of that company. These additional shares were purchased in order to consolidate the Company's position in British Columbia Oil Lands Ltd., particularly in view of the continued exploration success being achieved in the northeastern area of the Province of British Columbia, as exemplified by the gas discovery of major significance made by Pacific Petroleum Ltd. in its West Nat et al Yo-Yo a-74-H. The activities of British Columbia Oil Lands Ltd. during the past year are also reviewed in this report.

Gross income from all sources during the year under review amounted to a record \$362,878 compared to \$286,704 received the previous year. Although the expansion of the Company's exploratory activities resulted in higher operating expenses and exploration costs, an increase of 44% in net income after taxes should be noted. The year's exploration and development expenditures were sufficient to offset that portion of the Company's income, which otherwise would have been subject to income tax.

exploration
and
development

The Company's working-capital position remains satisfactory, although reduced by approximately \$485,000 from that of June 30, 1962 by the acquisition of the previously-mentioned additional shares of British Columbia Oil Lands Ltd.

ACADIA, ALBERTA. Two commercial gas discoveries were made on 75% interest Gas License lands in the Acadia area of Southeastern Alberta at a depth of 2,500 feet in the Viking formation. Subsequent drilling required to earn leases from the License resulted in three additional gas wells so the Company now has 75% interest in four gas wells and a 56¼ % interest in the fifth, which was drilled pursuant to a farmout agreement with another company. Four dry holes were drilled during the program.

Prairie's land holdings and well locations in the Acadia area are illustrated in a map contained elsewhere in this report. Net leasehold interests to the Company in this area total 19,980 acres.

The five wells are located immediately north of the producing Bindloss Gas Field and the Alberta Gas Trunkline system passes through the lands held under lease. Although currently shut-in for lack of a market outlet, it is expected that commencement of gas sales from the Company's wells will take place within approximately two year's time.

Consideration is currently being given to further exploratory drilling on Company-interest lands in the area.

FOREST VIEW, ALBERTA. The Company holds a 50% interest in a P. & N. G. Reservation comprising 17,920 acres in the Forest View area of Alberta, approximately 16 miles north of the North Sturgeon Lake (D-3) Oil Field. A reconnaissance seismic program, conducted in late 1961, gave sufficient encouragement to justify a further program this fall. The results of these programs may lead to the drilling of an exploratory test in the area this winter.

ROCKY MOUNTAIN HOUSE, ALBERTA. The Company participated as to a 12½ % interest in the acquisition of a 9,440 acre P. & N. G. Drilling Reservation in the Rocky Mountain House area of Central Alberta. A limited seismic program, supplemented by data acquired from another company, was conducted in June, 1962. A 9,000-foot Mississippian test is currently drilling on the reservation.

OUNGRE, SASKATCHEWAN. Subsequent to year's end the Company undertook a 16⅔ % interest in a farmout in the Oungre area of Southeastern Saskatchewan, located 18 miles south of the Weyburn Oil Field. The farmout involves 4,160 acres of Crown leases on which the Company already holds a 2½ % gross overriding royalty. Three oil wells had previously been completed by another company offsetting the farmout lands.

As of the date of this report three wells had been completed by the Company and its partners and a fourth is being drilled. Initial producing rates for the three wells varied between 35 bopd and 200 bopd. A pipeline serves this area and a market exists for the medium-gravity crude oil produced from these wells.

OTHER AREAS The Company participated with an 80% and a 33⅓% interest in two unsuccessful exploratory tests on farmout properties in the Lesser Slave Lake and Rumsey areas of Alberta.

During the period under review the Company has acquired varying interests in a number of Crown leases in prospective areas in Alberta. Drilling activity by other companies near at least four of these parcels is anticipated during the next six-month period.

In February, 1962 the Company was notified that 67,000 acres of Crown leases in Southeastern Saskatchewan, in which a 2½% gross overriding royalty interest was held, were to be surrendered. Pursuant to existing farmout agreements the Company elected to accept assignments covering 50,140 acres. Subsequently 48,000 acres of these lands were assigned to other companies with the Company retaining a 5% overriding royalty in 4,000 acres and a 2½% overriding royalty in 44,000 acres. The companies receiving these assignments paid the annual rentals due April 1, 1962 and granted to the Company the right to reacquire the leases in the event of surrender.

One section of the 2,140 acres of leases retained by the Company is located 1½ miles east of production in the Oungre area where the Company is now participating in a development program.

Development drilling on the Company's royalty-interest properties in South-eastern Saskatchewan resulted in the completion of 18 oil wells during the year. A large majority of these completions took place in the Weyburn and Midale areas.

A summary of Prairie's landholdings, as of June 30, 1962, is given with this report. A significant change in the Company's landholdings has taken place during the year with the acquisition of 36,850 net acres in Alberta, where the Company had not previously been active. The Company's properties in other areas remain relatively unchanged from that reported one year ago.

Prairie continues to hold its interest in the Pan Arctic Syndicate, which interest is equivalent to 11½% of 4,672,000 acres of permit lands in the Arctic Islands. Additional surface geological work was conducted during the summer of 1961 with the remainder of the work requirements to be completed in 1962.

The Company's net oil and gas reserves, at June 30, 1962, as calculated by J. C. Sproule and Associates Ltd., Calgary, together with those reported in 1961 are as follows:

	June 30, 1962	June 30, 1961
Oil (Bbls.)	873,000	1,033,000
Pipeline Gas (Mcf)	30,078,000	—

The above oil and gas reserves were obtained by employing methods consistent with those followed by the American Petroleum Institute and the Canadian Petroleum Association. The Company's oil producing properties in the Midale and Weyburn fields of Southeastern Saskatchewan, which accounted for 42½% of its production during the year, were not credited with any of the substantial increase in reserves anticipated from projected pressure maintenance programs. Both fields are expected to commence water injection operations within one year.

landholdings

reserves

*British Columbia
Oil Lands Ltd.*

A brief review of activities in the Fort Nelson area of British Columbia, as they affect the properties of British Columbia Oil Lands Ltd., is presented herewith. Also included in this report is a map of the Fort Nelson area showing pertinent land and well information.

Landholdings, as reported by British Columbia Oil Lands Ltd. in its 1962 report, are as follows:

ACREAGE	TYPE	INTEREST	OPERATOR
454,783	Permit	25% carried	Pacific Petroleums Ltd.
1,047,888	"	12½ % carried	Pan American Petroleum Corporation
92,160	"	25% carried	Pan American Petroleum Corporation
30,406	"	15% working	Pan American Petroleum Corporation
212,956	Lease	12½ % carried	Pan American Petroleum Corporation

Four wells were commenced on British Columbia Oil Lands' acreage during the past year. Two of these were completed as gas wells and two were suspended at the end of the drilling season, one of which will be deepened in the 1962-63 operational period.

In the Kotcho Lake area West Nat Gas Kotcho b-54-K was completed as a Slave Point gas well after testing gas at the rate of 2 MMcf. per day and water at the rate of 80 barrels per day. This lies on Permit 311 in which British Columbia Oil Lands holds a 25% carried interest.

Pan American Petroleum Corporation completed Pan Am Dilly a-30-K on Permit 1159 in the Petitot River area. The well on production tests flowed up to 9.84 MMcf./day from the Slave Point. British Columbia Oil Lands holds a 15% working interest in this 30,406-acre permit.

Pan American Petroleum Corporation commenced the drilling of two wells west of the Petitot area on lands in which British Columbia Oil Lands Ltd. holds a 12½ % carried interest neither of which reached projected total depths. Pan Am Philis b-65-G was suspended at a depth of 8,637 feet and Pan Am Trail d-68-H at a depth of 6,260 feet, with the latter well to be deepened in the 1962-1963 drilling season.

A gas discovery of major significance to British Columbia Oil Lands Ltd. was made by Pacific Petroleums Ltd. in its West Nat et al Yo-Yo a-74-H. This well is located ten miles southwest of the Kotcho Lake field and one-half mile south of Permit 311 in which British Columbia Oil Lands Ltd. has a 25% carried interest. It was announced by Pacific Petroleums Ltd. that the well was completed after penetrating 171 feet of Slave Point formation and recorded an absolute open flow potential of 185 MMcf. Indications are that this discovery is comparable to other prolific discoveries of the Fort Nelson area.

Respectfully submitted on behalf of the Board.

JOHN B. AIRD,
President.

October 4, 1962.

Land Holdings

as at June 30th, 1962

SASKATCHEWAN

1. 100 % mineral interest in 4,089 acres of freehold land.
2. 56¼ % mineral interest in 487 acres of freehold land.
3. 50 % mineral interest in 23,530 acres of freehold land.
4. 25 % mineral interest in 160 acres of freehold land.
5. 12½ % gross royalty interest in 800 acres of freehold land.
6. 6¼ % gross royalty interest in 24,622 acres of freehold land.
7. 3⅛ % gross royalty interest in 480 acres of freehold land.
8. 2 % gross royalty interest in 160 acres of freehold land.
9. 7½ % gross overriding royalty interest in 399 acres of Crown petroleum and natural gas lease land in the Estevan-Midale area.
10. 5 % gross overriding royalty interest in 23,433 acres of Crown petroleum and natural gas lease land in the Estevan-Midale area.
11. 2½ % gross overriding royalty interest in 209,194 acres of Crown petroleum and natural gas lease land in the Estevan-Midale area.
12. 1¼ % gross overriding royalty interest in 257,126 acres of Crown petroleum and natural gas lease land in the Fosterton-Gull Lake area.
13. 100 % interest in 2,058 acres of Crown petroleum and natural gas lease land in the Estevan-Midale area.
14. 100 % interest in 1,872 net acres of freehold petroleum and natural gas lease land.
15. 50 % interest in 80 net acres of freehold petroleum and natural gas lease land.
16. 10 % net carried interest in 160 acres of freehold petroleum and natural gas lease land.

MANITOBA

1. 50 % interest in a 6¼ % gross royalty interest in 124,151 acres of freehold land.
2. 6¼ % gross royalty interest in 6,422 acres of freehold land.
3. 50 % mineral interest in 4,320 acres of freehold land.

ALBERTA

1. 75 % interest in 960 acres of Crown petroleum and natural gas lease land.
2. 50 % interest in 11,184 acres of Crown petroleum and natural gas lease land.
3. 40 % interest in 2,246 acres of Crown petroleum and natural gas lease land.
4. 37½ % interest in 960 acres of Crown petroleum and natural gas lease land.
5. 75 % interest in 20,320 acres of Crown Gas Licence land.
6. 50 % interest in 17,920 acres of Crown petroleum and natural gas Reservation land.
7. 37½ % interest in 9,760 acres of Crown petroleum and natural gas Permit land.
8. 12½ % interest in 9,440 acres of Crown reserve drilling Reservation land.
9. 33⅓ % interest in 320 acres of freehold petroleum and natural gas lease land.
10. 16⅔ % interest in 800 acres of freehold gas lease land.

NORTHWEST TERRITORIES

1. 2½ % gross overriding royalty interest in Crown petroleum and natural gas Lease No. 1961 containing 18,494 acres.
2. 3.7131 % ownership interest in petroleum and natural gas Permits numbered 886, 887, 888, 895, 896, 902 to 910 inclusive, 921, 934 to 937 inclusive, 1526 and 3141, aggregating approximately 967,772 acres, in the southwestern portion of the Territories in the Upper Mackenzie District, south of Fort Simpson and Fort Providence and centred 70 miles west of Great Slave Lake.

ARCTIC ISLANDS

1. An interest equivalent to 11.5% in a total of 4,672,000 acres of permit land. in the Arctic Islands.

Balance Sheet

	1962	1961
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,857	\$ 45,406
Deposit receipt	850,000	1,700,000
Accounts receivable	110,740	39,355
Income tax refundable	18,500	—
	<u>983,097</u>	<u>1,784,761</u>
INVESTMENT IN SHARES, at cost		
British Columbia Oil Lands Ltd.	1,523,801	1,010,594
Other companies	459,245	—
	<u>1,983,046</u>	<u>1,010,594</u>
CAPITAL ASSETS, at cost		
Producing properties, less accumulated depletion	53,263	95,685
Capped gas wells	76,688	—
Non-producing properties	667,338	777,904
Production equipment, less accumulated depreciation	7,562	13,657
	<u>804,851</u>	<u>887,246</u>
 Signed on behalf of the Board		
 JOHN B. AIRD, Director		
 ROSS H. FAULKNER, Director		
	<u>\$3,770,994</u>	<u>\$3,682,601</u>

THE ACCOMPANYING NOTES ARE

Royalties

Y, LTD.

June 30, 1962

LIABILITIES

	<u>1962</u>	<u>1961</u>
CURRENT LIABILITIES		
Accounts payable	\$ 98,682	\$ 60,516
Income tax	—	17,000
	<u>98,682</u>	<u>77,516</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized — 2,500,000 shares of \$1.00 each		
Outstanding — 1,876,520 shares	1,876,520	1,812,775
CONTRIBUTED SURPLUS	420,480	400,684
RETAINED EARNINGS	1,375,312	1,391,626
	<u>3,672,312</u>	<u>3,605,085</u>
	<u>\$3,770,994</u>	<u>\$3,682,601</u>

OF THE FINANCIAL STATEMENTS.

Statement of Income

For the year ended June 30, 1962

	1962	1961
REVENUE		
Royalty income and sales of crude oil	\$314,955	\$272,593
Interest (net)	44,083	12,726
Sundry	3,840	1,385
	<u>362,878</u>	<u>286,704</u>
EXPENSES		
Management fees	38,796	23,916
Legal fees and expenses	17,874	4,264
Lease rentals and mineral taxes	16,783	7,493
Engineering and geological fees	10,990	1,395
Production expenses	8,291	3,538
Office and miscellaneous	7,956	9,034
Trust company fees and expenses	7,100	10,835
Audit and accounting fees	4,403	11,083
Directors' fees	1,725	1,600
	<u>113,918</u>	<u>73,158</u>
Income before the following items	248,960	213,546
Deduct		
Dry holes and related exploration costs	94,320	52,568
Unproductive properties surrendered	834	30,998
Depletion	18,569	19,140
Depreciation	1,329	816
	<u>133,908</u>	<u>110,024</u>
Income before income tax	133,908	110,024
Income tax	(9,500)	17,000
NET INCOME FOR THE YEAR	<u>\$143,408</u>	<u>\$ 93,024</u>

Statement of Retained Earnings

For the year ended June 30, 1962

	1962	1961
Balance at beginning of year	\$1,391,626	\$ 271,582
Add		
Net income for the year	143,408	93,024
Profit from sale of royalty and property interests to Freeholders Oil Company Limited	(22,187)	1,057,420
Profit from sale of a producing well	58,866	—
	<u>1,571,713</u>	<u>1,422,026</u>
Deduct		
Exploration expenditures of previous years now determined to be unproductive	195,000	—
Adjustment in respect of previous years' income tax	1,401	30,400
Balance at end of year	<u>\$1,375,312</u>	<u>\$1,391,626</u>

Explanatory Notes to Financial Statements

June 30, 1962

1. ACCOUNTING POLICY

Acquisition and exploration costs of properties are capitalized as incurred. Costs of producing properties are depleted on the unit of production method based upon estimated recoverable reserves as determined by the Company's engineering representatives. Costs are written off as properties are determined to be unproductive.

2. INCOME TAX

Although the company has a net income for the year, the deductions allowed under the Income Tax Act for depletion and for drilling and exploration expenses which have been capitalized have resulted in a loss for the year for income tax purposes, entitling the company to claim a refund of a portion of the tax paid in the previous year.

3. INVESTMENTS

The investment in British Columbia Oil Lands Ltd. consists of 261,661 shares. Subsequent to June 30, 1962 an additional 71,861 shares were acquired for \$485,316.05.

Shares held in other companies had a quoted market value of \$358,750 at June 30, 1962.

4. CAPITAL STOCK

During the year 63,745 shares were issued at \$1.25 per share in U.S. funds upon the exercise of outstanding warrants. Capital stock account has been credited with the par value of \$63,745, and contributed surplus account with the remaining proceeds of \$19,796 after adjustment for exchange.

No options on the Company's capital stock are outstanding at June 30, 1962.

5. STATUTORY INFORMATION

Legal fees paid during the year amounted to \$40,061 (including expenditures in connection with the disposition of royalty and property interests to Freeholders Oil Company Limited).

Auditors' Report to the Shareholders

TOUCHE, ROSS, BAILEY & SMART
CHARTERED ACCOUNTANTS

565 BENTALL BUILDING
CALGARY, ALBERTA
CABLE ADDRESS: "TROBAS"

SAINT JOHN
MONTREAL
TORONTO
LONDON
REGINA
NORTH BATTLEFORD
EDMONTON
VICTORIA

OTTAWA
HAMILTON
WINNIPEG
SASKATOON
CALGARY
VANCOUVER

UNITED STATES OF AMERICA
GREAT BRITAIN
GERMANY
ARGENTINA
AUSTRALIA
BAHAMAS
BARBADOS
BELGIUM
BRAZIL
FRANCE
SWITZERLAND

JAMAICA
MEXICO
THE NETHERLANDS
PANAMA
PERU
PUERTO RICO

Auditors' Report to the Shareholders

PRAIRIE OIL ROYALTIES COMPANY, LTD.
CALGARY, ALBERTA

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd., as at June 30, 1962 and the related statements of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and related statements of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1962, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart
Chartered Accountants

Calgary, Alberta
September 24, 1962

ANNUAL REPORT

For Fiscal Year ended June 30, 1962

**BOARD OF
DIRECTORS:**

JOHN B. AIRD, *Toronto, Ontario*
JACK COLES, *New York, New York*
ROSS H. FAULKNER, *New York, New York*
BENJAMIN HEFFNER, *New York, New York*
JOSEPH H. HIRSHHORN, *Toronto, Ontario*
D. C. ION, *Toronto, Ontario*
M. A. MACPHERSON, *Regina, Saskatchewan*
WINFIELD H. PERDUN, *New York, New York*
R. R. RUSMISEL, *New York, New York*

OFFICERS:

JOHN B. AIRD, *President & Treasurer*
D. M. TYERMAN, *Secretary*

HEAD OFFICE:

2236 *Albert Street, Regina, Saskatchewan*

COUNSEL:

MACPHERSON, LESLIE AND TYERMAN, *Regina, Saskatchewan*
SIMPSON, THACHER AND BARTLETT, *New York, New York*

AUDITORS:

TOUCHE, ROSS, BAILEY & SMART, *Toronto, Ontario*

MANAGEMENT:

DEVON-PALMER OILS LTD., *Calgary, Alberta*
(No Personal Liability)

**TRANSFER AGENT
& REGISTRAR:**

CANADA PERMANENT TORONTO GENERAL TRUST CORPORATION,
Regina, Saskatchewan

**CO-TRANSFER AGENT
& REGISTRAR:**

THE ROYAL TRUST COMPANY, *Toronto, Ontario*

CO-TRANSFER AGENT:

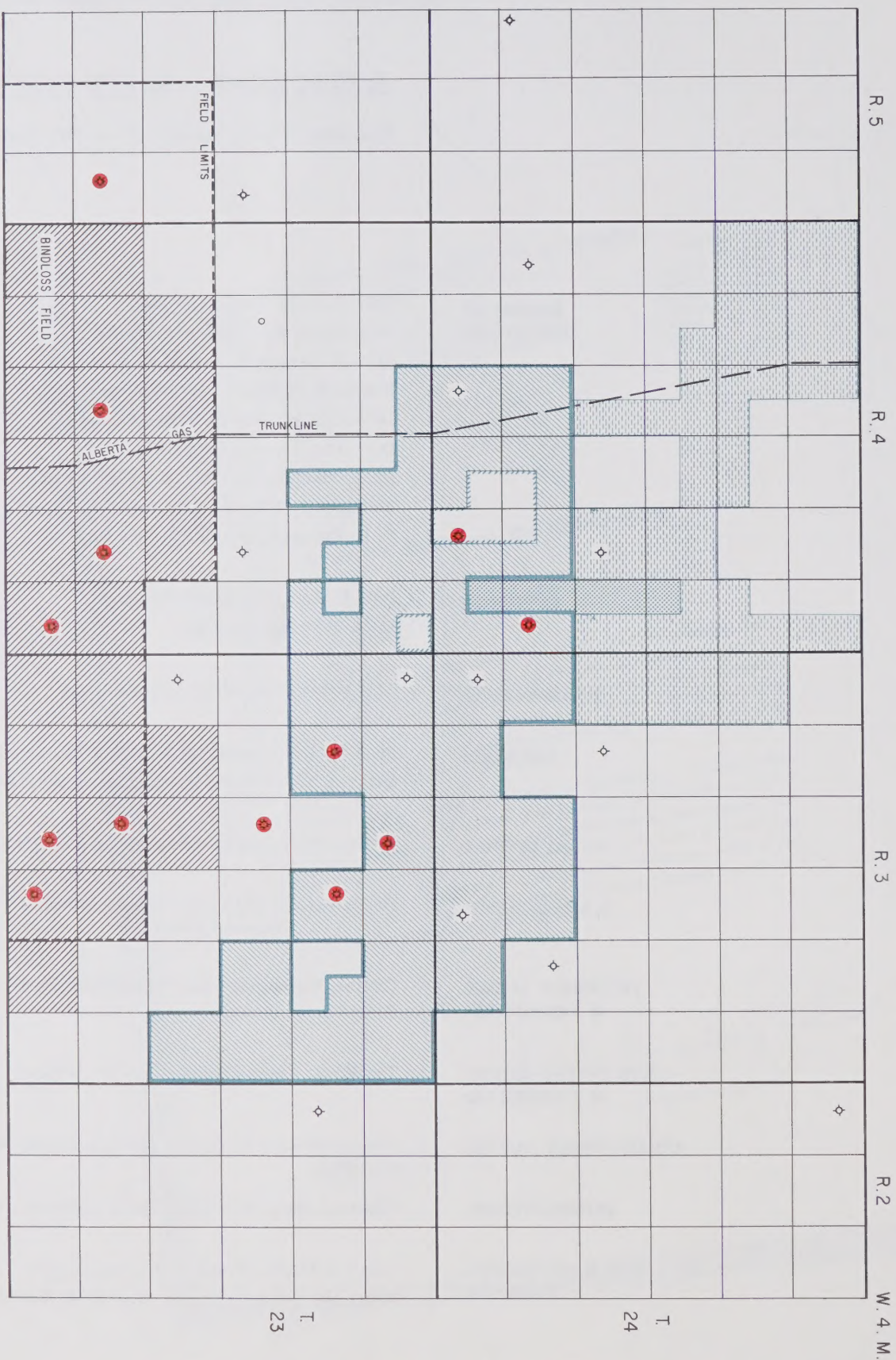
MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *New York, New York*

CO-REGISTRAR:

CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*

**STOCK EXCHANGE
LISTINGS:**

TORONTO STOCK EXCHANGE, *Toronto, Ontario*
AMERICAN STOCK EXCHANGE, *New York, New York*



CELIBETA

BEAVER RV

Ø

P. 341

P. 384
PHILIS 656Ø

P. 387

P. 388

PETITOT RV. AREA

DILLY A30-K
—P. 1159

P. 322

P. 366
TRAIL 68H Ø

P. 327

P. 323

P. 309

KOMIE

P. 310

P. 311

KOTCHO LK. AREA

YOYO 74H

KOTCHO B54K

FT NELSON

CLARKE LK AREA

ALASKA

HIGHWAY

BRITISH COLUMBIA
FORT NELSON AREA

- LOCATION
- SLAVE POINT GAS WELL
 - MISSISSIPPIAN GAS WELL
 - ABANDONED
 - SUSPENDED DRILLING



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